

THE FRITO COMPANY



1959 ANNUAL REPORT



Officers

JOHN D. WILLIAMSON
President

JACK JOHANNES
Vice President and General Counsel

FLADGER F. TANNERY
Executive Vice President

JOHN R. MCCARTY
Vice President

E. L. NICOLAY
Vice President

EMIL JURICA
Treasurer

R. V. DANCEY
Vice President

W. LAMAR LOVVORN
Secretary and Controller

ERNESTINE PUTNAM
Assistant Secretary

Directors

WILLIAM D. BAIRD
*Executive Vice President,
Mrs. Baird's Bakeries, Inc.*

E. L. NICOLAY
Vice President, The Frito Company

CHAS. E. BEARD
President, Braniff Airways, Incorporated

C. B. PETERSON, JR.
President, Texas Bank and Trust Company

R. V. DANCEY
Vice President, The Frito Company

H. H. ROUSSEAU
Investments

JACK JOHANNES
*Vice President and General Counsel,
The Frito Company*

FLADGER F. TANNERY
*Executive Vice President,
The Frito Company*

EMIL JURICA
Treasurer, The Frito Company

JOHN D. WILLIAMSON
President, The Frito Company

THE FRITO COMPANY • 1959 ANNUAL REPORT

*Executive Offices: Exchange Bank Building, 100 Exchange Park North,
Dallas 35, Texas*

*Auditors: Arthur Young & Company, Dallas, Texas
Registrar and Transfer Agent: Texas Bank & Trust Co., Dallas, Texas*

The information contained herewith is not given in connection with any sale or offer of,
or solicitation of any offer to buy, any securities.

THE FRITO COMPANY SUMMARY OF PROGRESS



	(Nearest \$1,000)		
	1959	1958	1957
NET SALES	\$59,366,000	\$51,257,000	\$45,632,000
INCOME BEFORE TAXES	4,750,000	3,226,000	3,088,000
TAXES ON INCOME	2,509,000	1,694,000	1,563,000
NET INCOME	2,241,000	1,532,000	1,525,000
Shares of Common Stock Outstanding at End of Year	1,598,059	1,528,798	1,502,618
EARNINGS PER COMMON SHARE			
Before Taxes	2.97	2.11	2.05
Provision for Income Taxes	1.57	1.11	1.04
Net	1.40	1.00	1.01
CASH DIVIDENDS	789,000	568,000	309,000
SHAREHOLDERS' EQUITY	11,415,000	8,625,000	7,469,000
BOOK VALUE PER SHARE	7.14	5.64	4.97
NET WORKING CAPITAL	4,149,000	3,965,000	1,407,000
CURRENT RATIO	1.86	1.92	1.29
PROPERTY, PLANT AND EQUIPMENT			
Cost	15,986,000	12,921,000	9,334,000
Accumulated Depreciation	5,018,000	3,977,000	2,716,000
Net	10,968,000	8,944,000	6,618,000
DEPRECIATION AND AMORTIZATION	1,217,000	991,000	713,000
TOTAL ASSETS	\$20,361,000	\$17,705,000	\$13,303,000

The above summary includes retroactively the accounts of all companies which have joined The Frito Company by means of "pooling of interests". The accounts of companies acquired otherwise are included from dates of acquisition. The number of shares outstanding and the earnings per share are adjusted to reflect the two-for-one stock split effective March 17, 1959. In addition to the cash dividends shown, a 5% stock dividend was declared in 1957 and paid in 1958.



TO THE SHAREHOLDERS OF THE FRITO COMPANY:

The growth of The Frito Company continued in the year 1959 with both sales and earnings increasing to an all-time high. This progress is evident by the Company's continued leadership in the national market with Fritos corn chips and its position as one of the country's largest manufacturers and distributors of potato chips. This growth reflects the consumer demand for quality Frito products, and is potent testimony of the reputation the Company enjoys in the food industry. Moving with this market leadership, the sales organization has been welded into a single selling team operating on a divisional basis from coast to coast and production facilities have been materially improved and expanded to assure a continuing supply of quality products.

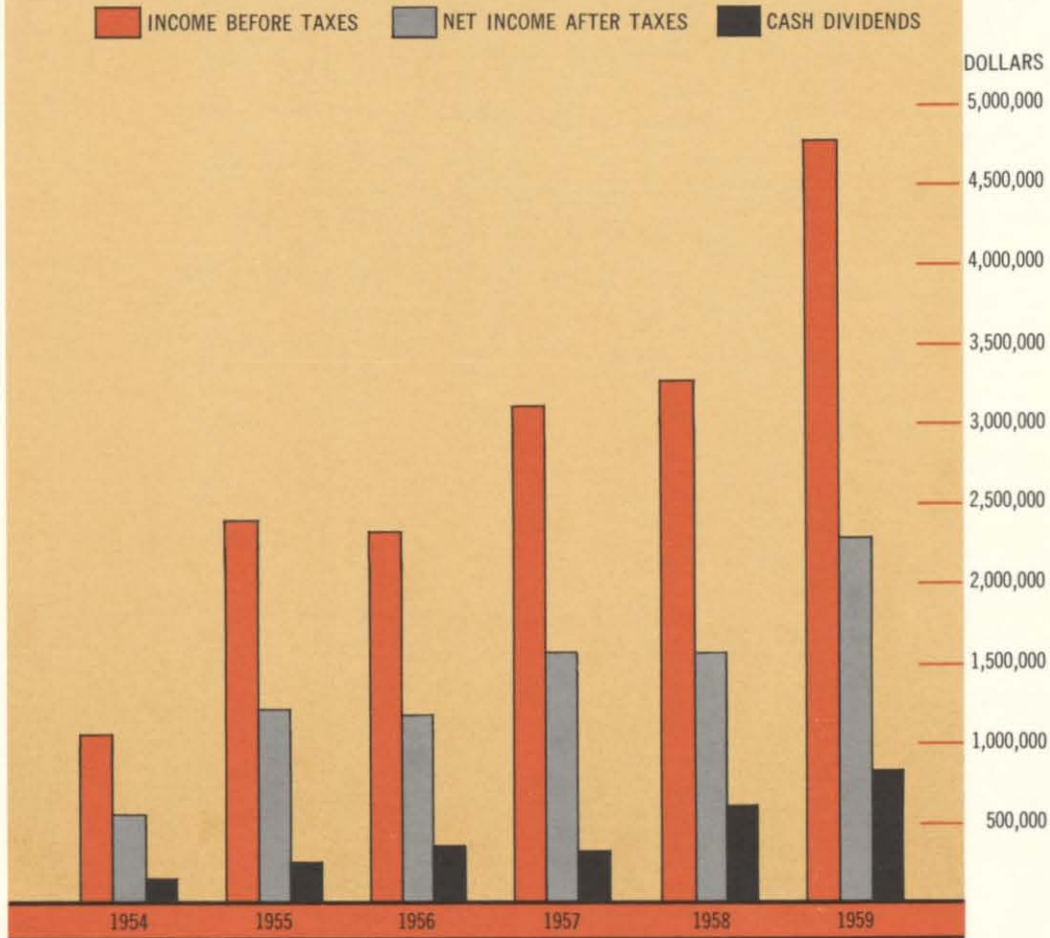
FINANCIAL RESULTS: Net earnings for 1959 were \$2,240,951, an increase of 46 per cent over the 1958 net income of \$1,531,873. Based on 1,598,059 shares outstanding on December 27, 1959, earnings were \$1.40 per share compared to 96¢ in 1958. Four quarterly dividends were declared during the year at the rate of 12½¢ per share. This is a 25 per cent increase in dividend rate compared to 10¢ per share rate paid in 1958. The graph on page 5 shows the earnings growth and cash dividend record of the Company for the six-year period 1954 through 1959.

On March 16, 1959 the shareholders approved a two-for-one split of the common stock, thus reducing the par value from \$5.00 to \$2.50 per share. A successful public offering of 200,000 shares of common stock at \$21.50 per share was made in April by a group of national and local underwriters. This offering included 60,000 new shares of Company stock and 140,000 shares belonging to three shareholders whose estate planning programs required some adjustments.

The Frito Company presently has 1,598,059 shares outstanding which are owned by approximately 5,000 shareholders throughout the United States. The stock is well-established and actively traded in the Over-the-Counter Securities Market, with an average of 20,000 to 25,000 shares traded each month. Because of the benefits derived from this sponsorship by these Over-the-Counter dealers, the Company is not contemplating any immediate moves to list the stock on any of the national stock exchanges.

SALES, ADVERTISING AND PRODUCT PROMOTION: For the 26th consecutive year, Company sales showed an increase over the previous year. Net sales for 1959 reached an all-time high of \$59,366,000 — a gain of 16 per cent over 1958 sales. This high volume resulted from the manufacture of top quality products and the improvement of distribution methods, supported by well-conceived advertising and merchandising programs. The Frito Company manufactures and

INCOME & CASH DIVIDENDS

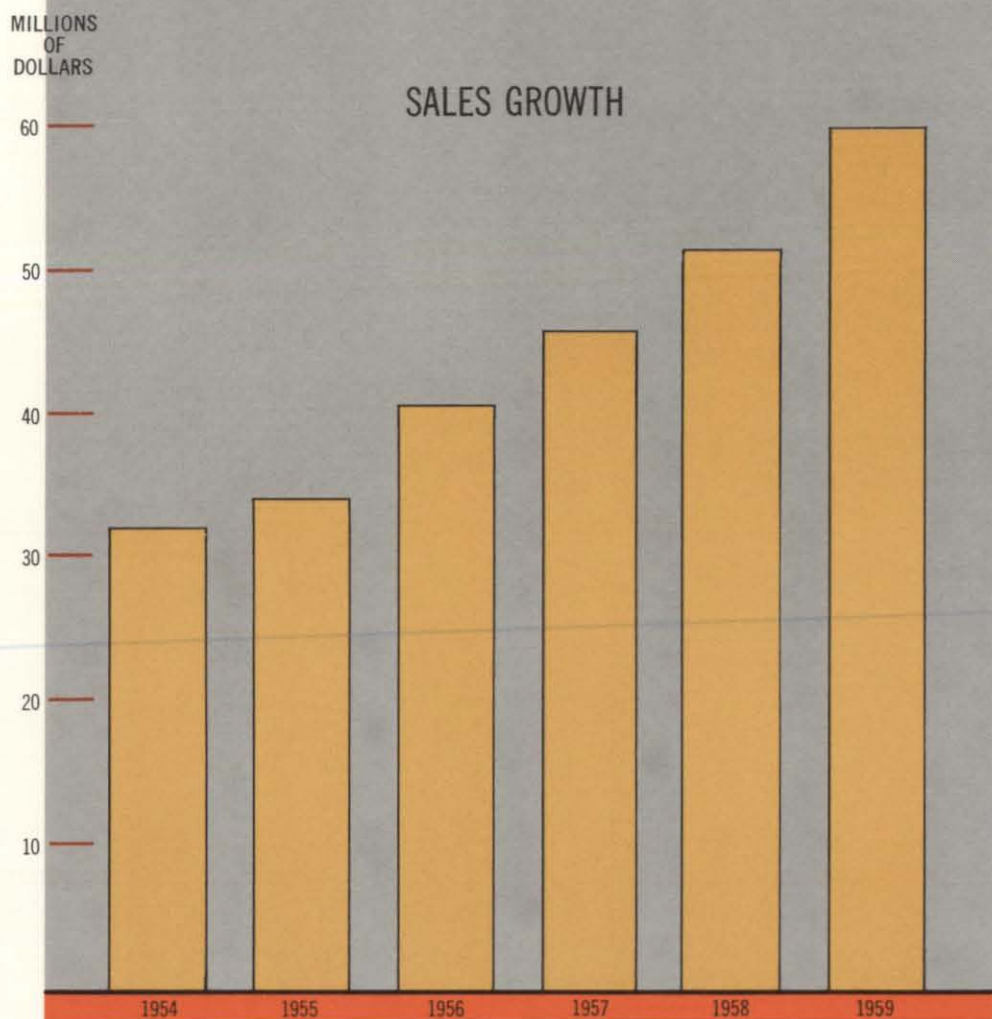


The above summary includes retroactively the accounts of all companies which have joined The Frito Company by means of "pooling of interests". The accounts of companies acquired otherwise are included from dates of acquisition. In addition to the cash dividends shown, the Company declared a 5% stock dividend in 1957.

distributes Fritos corn chips nationally. It also manufactures and distributes the following six brands of premium-quality potato chips in these areas:

- NEW ERA . . . Great Lakes region
- TA-TOS . . . Southwestern and parts of the Western states
- CRISPIE . . . California and parts of the Western states
- NUM NUM . . . Cleveland, Ohio and surrounding area
- JUPITER . . . New York and Eastern Seaboard states
- RUFFLES . . . All above areas with the exception of Eastern Seaboard,
and a licensee territory in Indiana, Chicago and St. Louis

Sales trends for the past six years are shown by the graph on page 6.



The above summary includes retroactively the accounts of all companies which have joined The Frito Company by means of "pooling of interests". The accounts of companies acquired otherwise are included from dates of acquisition.

Plans were completed for the marketing of two new products during 1959. New Era Instant Potato Flakes, a product designed for making instant mashed potatoes, was introduced late in the year in the Great Lakes region. This product is made under a revolutionary new process recently developed by the United States Department of Agriculture. The flake process of dehydrating fresh potatoes offers some outstanding consumer benefits over the other types of similar products now offered the housewife and institutional user. About 115 billion pounds of potatoes are consumed annually as mashed potatoes in the United States. This consumption provides a large potential market for mashed potatoes that can be quickly prepared for serving.

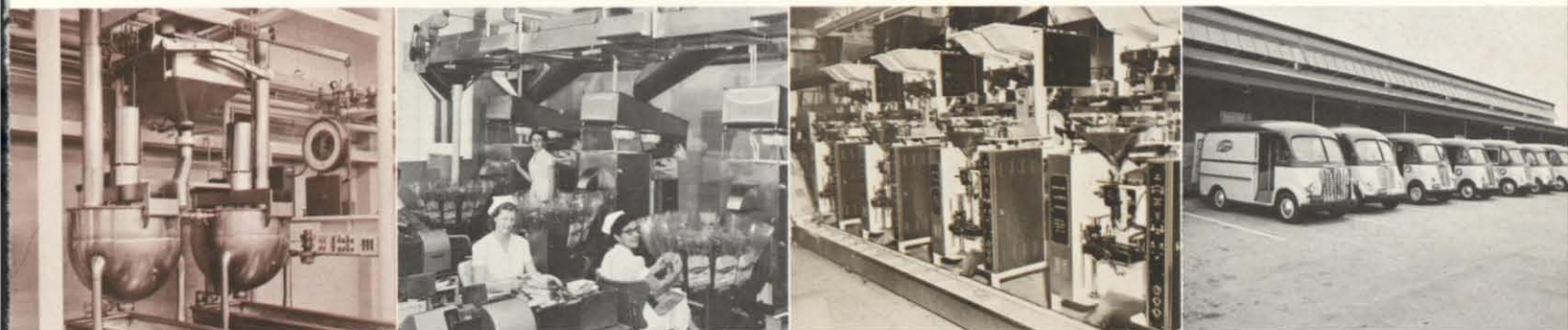
The introduction of Fritos Brand Pretzels, a new national product line, was planned for early 1960. Package designs and distribution plans were completed late

in 1959. This new product line will place the Company in a more favorable position to compete for its share of the \$75 to \$80 million spent annually for pretzels in the United States. Pretzel sales nationally appear to be growing at the rate of about 11 per cent per year.

Advertising and merchandising at the local market level utilized a flexible program of television, radio, outdoor, newspaper and point-of-sale. Specially-designed promotions included on-the-bag premiums to increase the rate of sampling in new markets. Nationally, the Company co-sponsored The Lone Ranger, with General Mills, on the ABC-TV network.

Late in 1959 Company plans were completed for use in 1960 of the combined network radio facilities of ABC, NBC and CBS — about 700 radio stations covering every market in the United States. Fritos corn chips will be featured on the programs of top radio stars such as Art Linkletter, Groucho Marx, Amos and Andy, Bob Hope, Morgan Beatty, John Daly, Bob and Ray, Ernie Kovac and many others in 1960.

PLANTS AND IMPROVEMENTS: A program of plant modernization, expansion and automation, started several years ago, was accelerated to meet expanding marketing opportunities. In 1959 the cost of this program amounted to \$3,238,565, compared to \$2,642,766 spent in 1958 for new and improved facilities. A part of the 1959 plant expansion included a new instant potato flake plant at Rogers City, Michigan. These facilities were built with the most modern production and sanitation equipment available. Located in the heart of Michigan's potato country, the facility can produce three million pounds of potato flakes per year and with a minimum additional investment for equipment, production capacity can be increased materially. Another major segment of the 1959 improvement program involved the



Wooster, Ohio plant, where enlarged facilities and more modern production equipment were added. This plant expansion provides a major increase in production capacity for both potato chips and Fritos corn chips, thus permitting the Company to consolidate, under centralized supervision, manufacturing previously done in less efficient plants in Barberton and Cincinnati, Ohio.

Toward the end of 1959, engineering and production plans were completed and work was started on a major expansion of facilities in Los Angeles to serve the growing Southern California market. These plans provide for the Company's first potato chip manufacturing facility in this area and for a substantial increase in the production capacity for Fritos corn chips. The plans also provide space for the installation of facilities for even further production capacity as market demands grow. This new potato chip plant, when completed, will have the distinction of being the most modern and efficient in the world. It will utilize equipment and processing techniques partially designed and built in the Company's Engineering and Research Department in Dallas, assuring customers in the Southern California market of outstanding quality products.

Late in 1959, the Company announced the acquisition of a site near Auburn, Pennsylvania. The Company plans to construct manufacturing facilities there to make Fritos corn chips and potato chips more readily available to the 45 million people in the Eastern Division marketing area. Also, under immediate consideration at the end of the year were the acquisitions of other plant sites in California, Texas and Canada.

RESEARCH: Management recognizes the vital part which research occupies in the growth pattern of the Company and in its plans for maintaining leadership in the corn chip and potato chip markets. Research is also vital to the Company's

**RAW
MATERIALS**
required for 1959
production

CORN
38,300,000 Pounds



OIL
30,500,000 Pounds

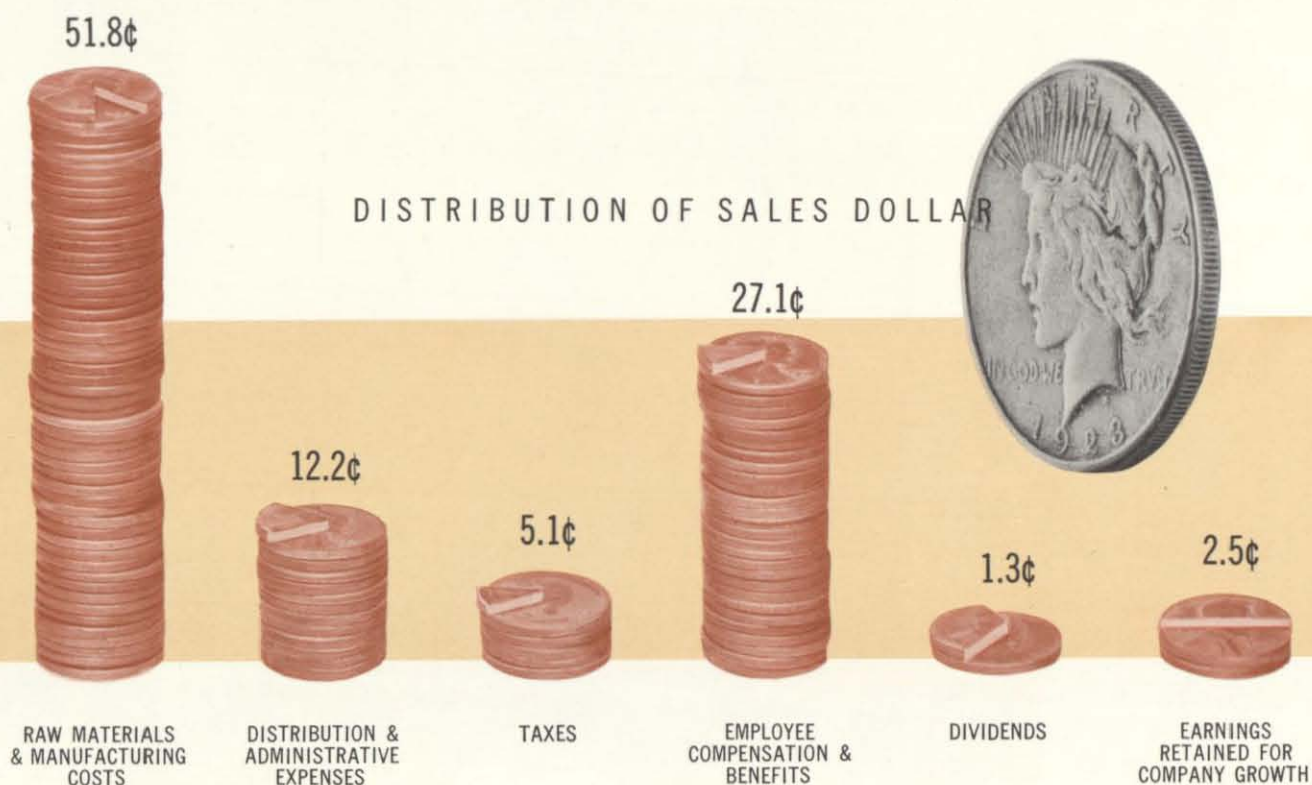
PACKAGES
618,400,000



POTATOES
128,700,000 Pounds

plans for expanding activities into other phases of the ever-growing field of convenience foods. The Company's research program is divided between two vital areas. One is research in the field of new products and new uses for presently manufactured products. The other is research involving new manufacturing equipment and process techniques. New projects were started in both areas of research and some highly trained personnel were secured to augment the Company's research staff.

PERSONNEL: The Company's executive management devoted a great deal of its attention during the year to the matter of personnel development and training. The objectives were to ferret out special talents, to broaden the experiences within the Company of many employees, to familiarize supervisory personnel with modern techniques of communications and management, and to generally upgrade and promote personnel from within on the basis of merit. Following this plan over a period of years will provide the Company with a reservoir of trained and qualified manpower, thus preparing employees to meet the challenges and opportunities offered by the Company's growth and expansion. The training programs in 1959 reached from the executive groups to the line supervisors in both sales and plant operations. These programs were conducted by key personnel of the Company with the assistance and guidance of outside professional teachers. The results have been most gratifying, as exhibited by the high morale and spirit of cooperation manifested among the 3,500 or more employees.



The Company remains a leader in employee benefit programs which it has placed into effect the last few years in such fields as group life insurance, health and accident insurance, retirement plans, vacations, and educational assistance. During 1959 these programs were extended to include the Company's driver-salesman force. The Company's management is justly proud of the loyalty, cooperation and skill of the employees who have contributed so much to the growth and success of The Frito Company.

OUTLOOK: The Frito Company has had a record of continuous growth from the time it started in 1932. Its financial position is sound and its organization can efficiently handle present operations as well as future growth and expansion.

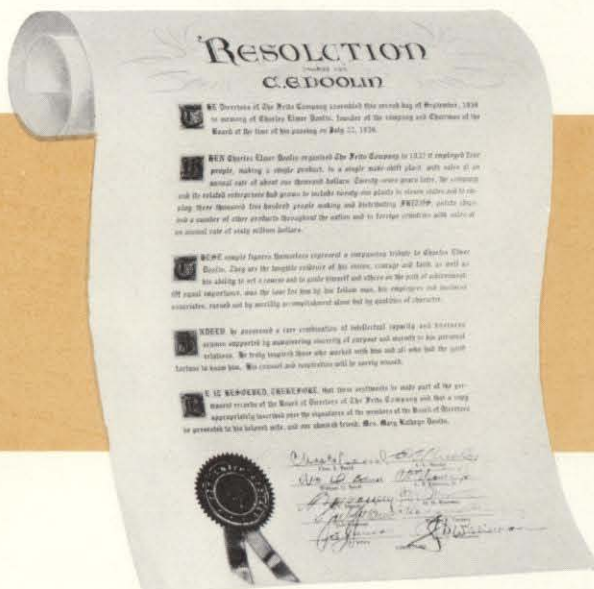
The Management of The Frito Company is confident and optimistic about the future of your Company — and believes that in the 1960's significant strides will continue to be made by the Company as a leader in the food industry.

Sincerely,

John D. Williamson

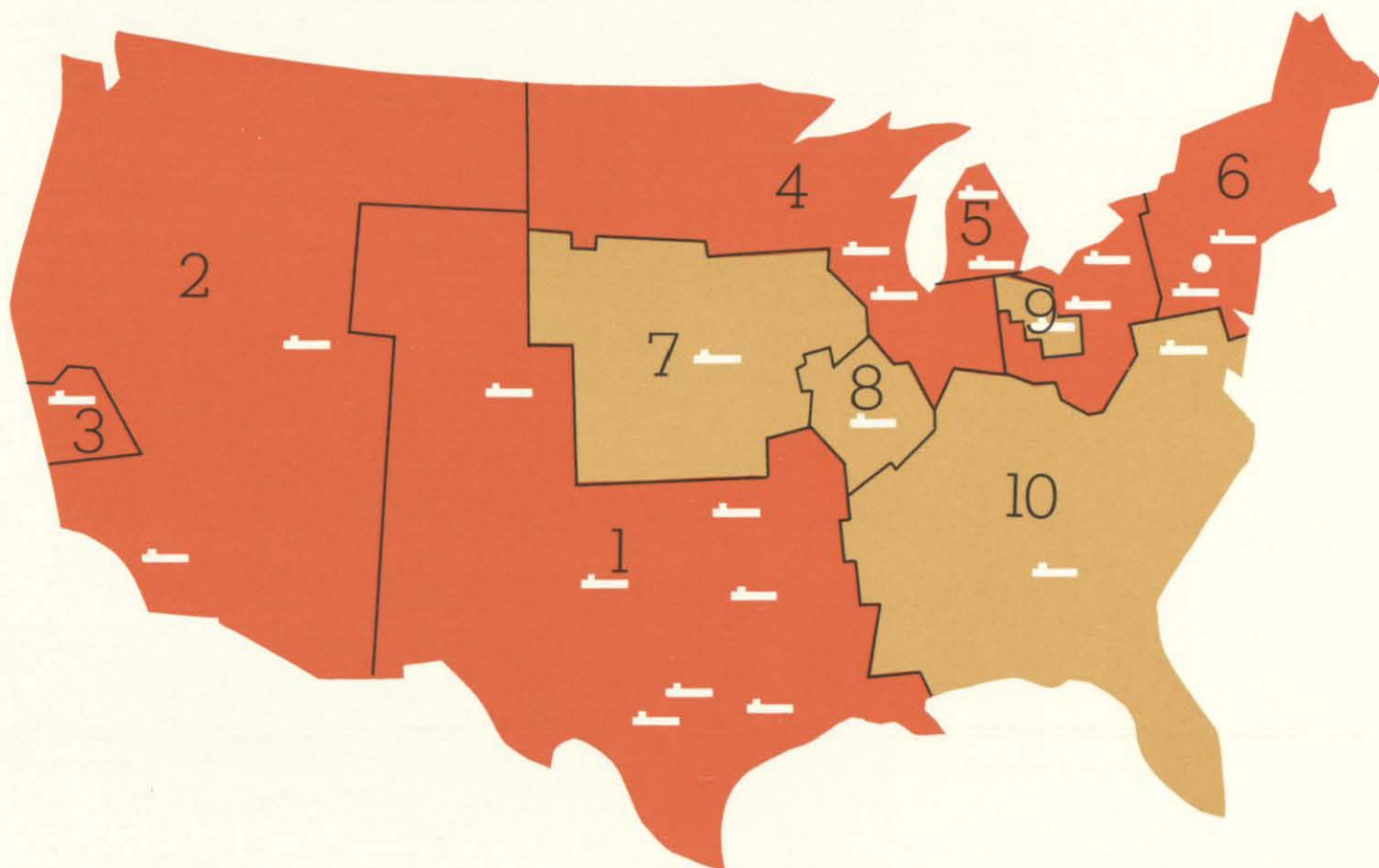
John D. Williamson,
President

* * *



The Board of Directors, by resolution, honored the late Charles Elmer Doolin, founder of The Frito Company. He was Chairman of the Board at the time of his passing on July 22, 1959.

This resolution, which traced the history of the Company from its founding in 1932 to the present, pointed out that the Company today "is tangible evidence of his vision, courage and faith, as well as his ability to set a course and to guide himself and others on the path of achievement."



AREA DISTRIBUTION

THE FRITO COMPANY



1. SOUTHWESTERN DIVISION • DALLAS, TEXAS
2. WESTERN DIVISION • LOS ANGELES, CALIF.
3. CRISPIE DIVISION • STOCKTON, CALIF.
4. NEW ERA DIVISION • CHICAGO, ILL.
5. NICOLAY-DANCEY DIVISION • DETROIT, MICH.
6. EASTERN DIVISION • MAMARONECK, NEW YORK

LICENSEE TERRITORY



Independent Franchises for Fritos Corn Chips

7. FRITO MIDWEST COMPANY • COUNCIL BLUFFS, IOWA
8. SO GOOD POTATO CHIP COMPANY • ST. LOUIS, MO.
9. FRITO COLUMBUS COMPANY • COLUMBUS, OHIO
10. H. W. LAY & COMPANY • ATLANTA, GA.
11. FRITO COMPANY OF HAWAII, LTD. • HONOLULU, HAWAII

COMPANY PLANTS



Chicago, Illinois
 Cleveland, Ohio
 Dallas, Texas (3)
 Denver, Colorado
 Detroit, Michigan
 Houston, Texas
 Los Angeles, California
 Lubbock, Texas
 Mamaroneck, New York
 Monroe, Wisconsin
 Nazareth, Pennsylvania
 Rogers City, Michigan
 Salt Lake City, Utah
 San Antonio, Texas (2)
 Seguin, Texas
 Stockton, California
 Tulsa, Oklahoma
 Wooster, Ohio

○ Proposed Plant
 Auburn, Pennsylvania

1959

THE FRITO COMPANY

CONSOLIDATED BALANCE SHEET

December 27, 1959

ASSETS

Current assets:

Cash		\$ 2,184,230
Receivables, less \$119,690 allowance for losses and discounts . .		2,938,066
Inventories, at cost (first-in, first-out basis), which is not in excess of market:		
Finished goods	\$ 1,318,074	
Raw materials, supplies and other	2,129,837	3,447,911
Prepaid expenses		399,457
Total current assets		8,969,664
Property, plant and equipment, at cost (Note 1)	15,985,941	
Less accumulated depreciation	5,018,241	10,967,700
Trademarks, patents, formulas, franchises, etc.		1
Deferred charges and other assets		424,126
		<u>\$20,361,491</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 2,633,923
Federal and state income taxes	1,345,694
Dividend payable	199,757
Long-term debt due within one year	641,763
Total current liabilities	4,821,137
Long-term debt, due after one year (Note 2)	3,955,962
Deferred federal income taxes (Note 1)	169,744

Shareholders' equity:

Common stock, \$2.50 par value; 3,000,000 shares authorized, 1,598,059 shares outstanding (Notes 3 and 4)	\$ 3,995,148
Capital in excess of par value (Note 3)	1,395,565
Retained earnings (Note 2)	6,023,935
	<u>11,414,648</u>
	<u>\$20,361,491</u>

See accompanying notes.

THE FRITO COMPANY



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS Year ended December 27, 1959

Net sales	\$59,365,981
Cost of sales	35,998,078
Gross profit	23,367,903
Selling, delivery, general and administrative expense	18,374,586
Operating profit	4,993,317
Interest expense	(231,675)
Miscellaneous deductions — net	(11,271)
Income before federal income taxes	4,750,371
Provisions for federal income taxes (includes \$91,668 deferred taxes)	2,509,420
Net income	2,240,951
Retained earnings at beginning of year	4,572,365
	6,813,316
Less cash dividends, \$0.50 per share	789,381
Retained earnings at end of year (Note 2)	\$ 6,023,935

See accompanying notes.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors,
The Frito Company:

We have examined the accompanying consolidated balance sheet of The Frito Company and subsidiaries at December 27, 1959 and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of The Frito Company and subsidiaries at December 27, 1959 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Dallas, Texas
February 26, 1960

THE FRITO COMPANY • NOTES TO FINANCIAL STATEMENTS

1. Property, plant and equipment

Property, plant and equipment at December 27, 1959 and the related accumulated depreciation were as follows:

	Cost	Depreciation
Land	\$ 940,766	\$ —
Buildings	4,777,659	901,219
Manufacturing equipment	5,917,003	2,508,481
Transportation equipment	2,010,224	1,091,833
Office equipment and miscellaneous	1,170,007	516,708
Construction and shop orders in process	1,170,282	—
	<u>\$15,985,941</u>	<u>\$5,018,241</u>

Depreciation and amortization provided during the year amounted to \$1,217,024. The estimated cost to complete construction and shop orders in process at December 27, 1959 was approximately \$1,250,000.

Deferred federal income taxes are being provided as a result of using an accelerated depreciation method for tax purposes.

2. Long-term debt

The 5% unsecured promissory note of \$4,500,000 is due \$600,000 in 1960, \$750,000 in 1961, \$800,000 in 1962 and \$850,000 in 1963 with \$1,500,000 or the unpaid balance being due on May 1, 1964. In addition, on or before 120 days after the end of fiscal years 1960, 1961 and 1962, payments (not to exceed \$500,000 for 1960 and \$600,000 for 1961 and 1962) are due equal to 33-1/3% of the net profits (as defined) for each such year, provided further that if such additional payments are less than the maximum amount, the difference will be added to the maximum for the succeeding year. The loan agreement requires the maintenance of certain ratios and minimum net working capital, prohibits the purchase of the Company's own stock and limits the payment of cash dividends. At December 27, 1959, \$531,094 of retained earnings was free of the most restrictive of the above provisions.

The balance of the Company's long-term debt at December 27, 1959 consisted of various instalment notes aggregating \$97,725 with \$41,763 being due within one year.

3. Common stock and capital in excess of par value

In March 1959 the shareholders approved a two for one split of the common stock with a reduction in the per share par value from \$5.00 to \$2.50 and an increase in the authorized shares to 3,000,000 shares. Changes in common stock and capital in excess of par value during the year are summarized as follows:

	Common stock Shares	Amount	Capital in excess of par value
Balance at beginning of year	764,399	\$3,821,995	\$ 231,030
Add:			
Additional shares issued to effect a two for one split	764,399	—	—
Sale of shares to the public	60,000	150,000	1,024,348
Shares issued on acquisition of territorial distribution contracts	4,736	11,840	83,104
Shares issued on acquisition of minority interest in Texas Tavern Canning Co.	3,075	7,688	50,677
Shares issued on exercise of employees' stock options	1,450	3,625	6,406
Balance at end of year	<u>1,598,059</u>	<u>\$3,995,148</u>	<u>\$1,395,565</u>

4. Stock options

In 1959, subject to shareholder approval, options were granted to two officers of the Company covering 37,500 shares of common stock at \$21.37½ per share (being 95% of market on date of grant). Such options are exercisable in whole or in part at any time prior to December 4, 1969. In addition, under a grant to an officer in 1957, options as to 14,000 shares were outstanding and exercisable at December 27, 1959 at \$6.95 per share. No options under the above grants were exercised during the year.

In 1957, the Company adopted a stock option plan, to remain in effect until April 29, 1963, under which options may be granted up to 10% of the outstanding shares of common stock of the Company. Options granted under the plan shall be for a period not exceeding 10 years at prices which are not less than 85% of the fair market value on date of grant and are exercisable in annual instalments or on such other basis as the Company may determine. Under the plan, options covering 25,700 shares were granted in 1959 at \$15.63 per share (being 85% of market on date of grant) and options as to 1,450 shares were exercised at \$6.92½. At December 27, 1959, there were outstanding under the plan options as to 102,000 shares at prices ranging from \$6.92½ to \$15.63 and options as to 22,036 shares were exercisable at prices ranging from \$6.92½ to \$8.96½.

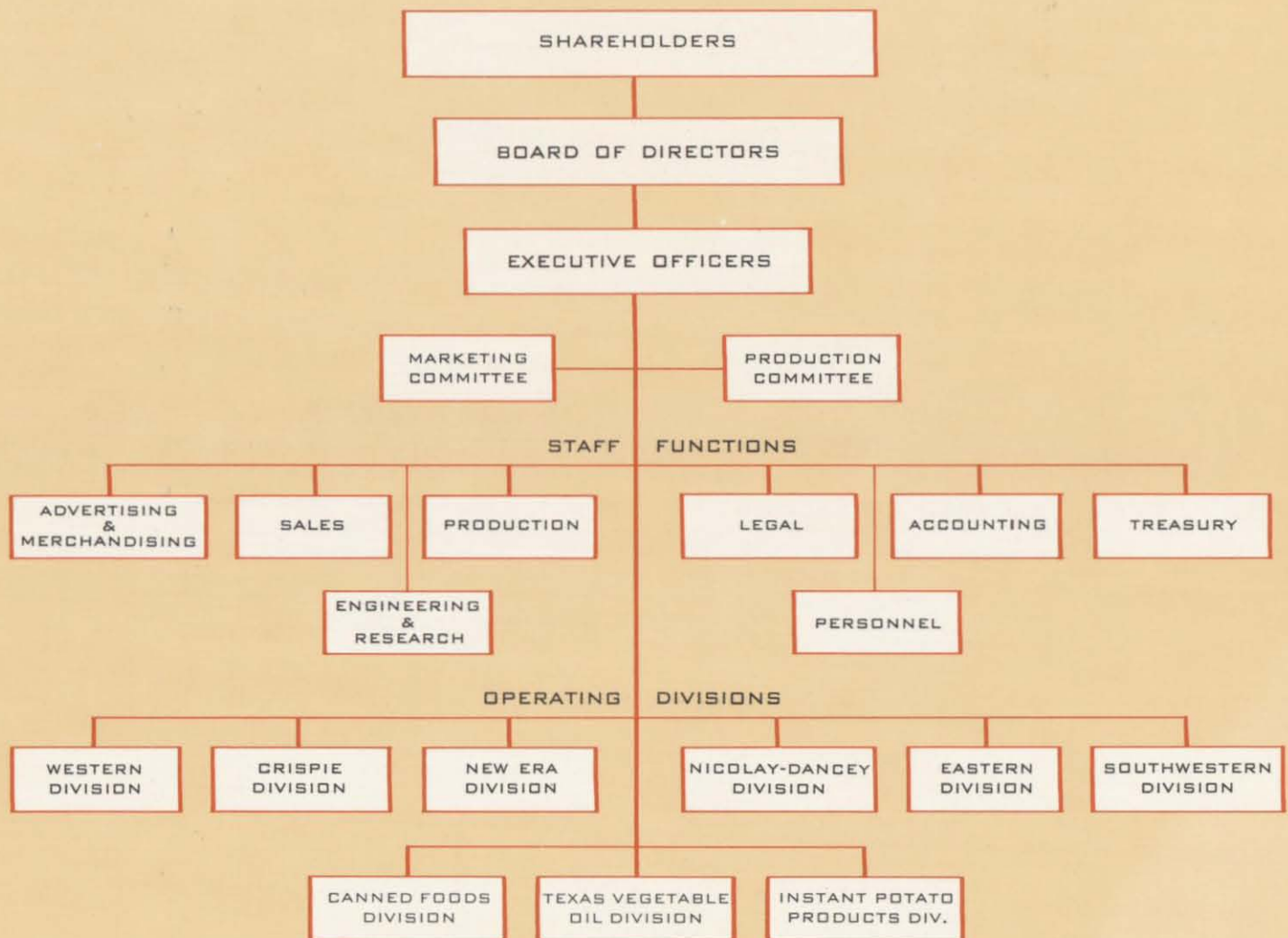
No charge has been made against income in accounting for the stock options.

5. Employees' retirement plans

Under the Company's noncontributory retirement plans, including a plan added in 1959, \$480,310 was charged to income during the year with respect to past service and current service costs. Unfunded past service costs at December 27, 1959 was approximately \$405,000 which, as to each employee, is being funded over the remaining years to retirement age.



COMPANY ORGANIZATION STRUCTURE



PRINCIPAL FRITO COMPANY PRODUCTS

CORN CHIPS



POTATO CHIPS



OTHER CONVENIENCE FOODS



CANNED FOODS

